2001 Annual Report

ATC
PETROLEUM SERVICES INTERNATIONAL INC.

Converting waste management to market and economic opportunities

international petroleum services and metal recovery company

Devoted to identifying and securing a base of long-term projects to enhance corporate stability

To Our Shareholders

In last year's Report to Shareholders the following statement was made: “we are clearly defining our future”. During 2001 the Company followed words with actions as it charted a course that would enable the establishment of an international petroleum services operation. On September 25, 2001 the change of corporate name to ATC Petroleum Services International Inc. from ATC Environmental Services Inc. as approved by the shareholders at last year's annual meeting was officially registered.

Of major importance this past year was the divestiture of the Company's Industrial By-Product Recycling Canada Inc. subsidiary effective June 30th. Management's focus on building the Company's oilfield services operation necessitated a reorganization of our corporate initiatives. The decision was consistent with management's direction to reduce overhead by shifting attention away from the uncertainty of the brokerage business and the instability of the metal markets. Management is confident that the decision to restructure the Company's business will be supported by the results we will demonstrate in 2002.

In addition to the reorganization of our corporate affairs management also determined that a more clear presentation of the balance sheet would be accomplished by writing down all soft assets and would be consistent with the Company's new focus. Capitalized development costs totaling $602 thousand were written off. This adjustment together with an estimated $500 thousand of cumulative operating and severance costs attributed to the winding down of our brokerage activities and the transitioning to our new oilfield service direction had a significant one-time impact on our earnings.

Credibility of our team and of our technology has facilitated a stable platform from which we can contniue to grow

Revenues decreased to $2.36 million, down from $5.36 million for the comparable period of 2000. A net loss of $1.18 million ($0.09 per share) was experienced compared to earnings of $0.56 million ($0.05 per share) for the previous year. In keeping with our decision to exit the metal market, it is important to note that in the first six months of 2001 that the Company's gross profit was only $61 thousand on $1.1 million in brokerage business.

In the last half of the year, which saw our oil waste remediation and recovery in full operations, ATC realized a gross margin of $546 thousand on $1.2 million in sales. This represents a gross profit margin of 45%. As such, it is clear why we have chosen to focus on this business for the Company's future.

For 2002 management has narrowed its focus to western Canada and the northwest United States, specifically Wyoming. We have been requested to return to two sites that we contracted with last year and are starting to experience a growing awareness of our presence and a respect for delivering promised results. Our relationship with both the business community in Wyoming as well as state and local environmental agencies has reached a new level. There is growing appreciation for the quality of services that ATC provides.

A recent report by the Campbell County Fire Department referenced one of the sites that ORCan Oilfield Services Ltd. (oilfield service division of ATC) had been servicing. The report indicated that on many occasions a representative of the Department of Environmental Quality for the State of Wyoming had contacted both the site owner and ORCan personnel. It further went on to say that the

representative "was happy with the work that ORCan Oilfield Services Ltd. had completed at that location, stating 'vast improvement in the area by ORCan'."

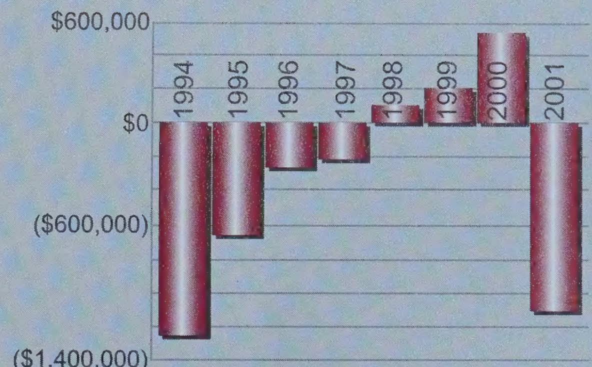
We have structured our growth plans around the Company's ability to generate cash flow from operations. At this time, the public markets are less than favorable for the raising of equity.

The current year will be devoted to identifying and securing a base of long-term projects to enhance corporate stability. The development of a marketing program to promote our oilfield services expertise together with the establishment of our web site has created significant momentum from which we hope to capitalize. The credibility of our team and of our technology has facilitated a stable platform from which we can continue to grow.

In short the uncertainty of our future has been replaced by the excitement of a team filled with enthusiasm for promoting its ability to the marketplace and the confidence that it will deliver.

I wish to thank the directors of the Company for their guidance and all of our shareholders for their continuing support.

Nate Feldman
President



Earnings Growth (net)

ATC
PETROLEUM SERVICES INTERNATIONAL INC.

positioned for growth

Auditor's Report to the Shareholders

We have audited the consolidated balance sheets of ATC Petroleum Services International Inc. (formerly ATC Environmental Group Inc.) as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada
April 12, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000	2001	2000
Assets		
Current assets:		
Cash	$ 137,849	$ 84,469
Accounts receivable	292,438	1,778,294
Prepaid expenses	4,403	55,935
	434,690	1,918,698
Capital assets (note 4)	597,322	606,707
Intangible assets (note 5)	-	381,166
	$ 1,032,012	$ 2,906,571
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank demand facility (note 6)	$ 80,000	$ 80,000
Accounts payable (note 3)	350,906	1,515,354
	430,906	1,595,354
Minority interest (note 7)	-	299,693
Shareholders' equity:		
Share capital (note 8):		
Common shares	2,926,285	2,796,479
Contributed surplus (note 3)	687,966	139,693
Deficit	(2,926,145)	(1,749,514)
	688,106	1,186,658
Share purchase loans (note 3)	(87,000)	(175,134)
	601,106	1,011,524
Future operations (note 1)		
Contingency (note 3)		
Subsequent event (note 13)		
	$ 1,032,012	$ 2,906,571

See accompanying notes to consolidated financial statements.

On behalf of the Board: Director

Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2001 and 2000

	2001	2000
Sales (notes 11 and 12)	$ 2,358,203	$ 5,356,942
Cost of sales (note 3)	1,750,356	3,321,304
Gross profit	607,847	2,035,638
Expenses:		
General and administrative (note 3)	1,165,219	1,469,409
Interest	13,862	45,283
Depreciation and amortization	143,049	46,912
	1,322,130	1,561,604
Income (loss) before other items	(714,283)	474,034
Other items:		
Write-down of development costs (note 5)	602,235	164,980
Minority interest (note 7)	(139,887)	(255,307)
	462,348	(90,327)
Net income (loss)	(1,176,631)	564,361
Deficit, beginning of year	(1,749,514)	(2,313,875)
Deficit, end of year	$ (2,926,145)	$ (1,749,514)
Net income (loss) per common share (note 8)		
Basic	$ (0.09)	$ 0.05
Diluted	$ (0.09)	$ 0.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net income (loss)	$ (1,176,631)	$ 564,361
Charges not affecting cash:		
Minority interest	(139,887)	(255,307)
Write-down of development costs	602,235	164,980
Depreciation and amortization	143,049	46,912
Reduction in share purchase loans for services performed	46,134	-
Funds from (utilized in) operations	(525,100)	520,946
Changes in non-cash working capital (note 10)	921,212	(453,716)
	396,112	67,230
Financing:		
Issue of common shares	12,000	300,532
Increase in bank demand facility	-	80,000
Due to related parties	-	(50,000)
	12,000	330,532
Investing:		
Proceeds on sale of subsidiary (note 3)	1	-
Expenditures on intangible assets	(221,069)	(436,927)
Acquisition of capital assets	(133,664)	(28,951)
	(354,732)	(465,878)
Increase (decrease) in cash	53,380	(68,116)
Cash, beginning of year	84,469	152,585
Cash, end of year	$ 137,849	$ 84,469

See accompanying notes to consolidated financial statements.

Notes to
Consolidated Financial Statements

Years ended December 31, 2001 and 2000

Basis of presentation:

ATC Petroleum Services International Inc. (the "Corporation") was formed upon the statutory amalgamation of Applied Technology Corporation Inc. and Environmental Containment Systems Ltd. on December 30, 1993. Effective September 25, 2001 the Corporation changed its name from ATC Environmental Group Inc. to ATC Petroleum Services International Inc. The Corporation is involved in the business of oil and solid waste recovery and remediation and the treatment of drill cuttings and oilfield wastes.

1. Future operations:

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

For the year ended December 31, 2001 the Corporation had incurred a net loss totalling $1,176,631 and had utilized funds from operations totalling $525,100. The application of the going concern concept is dependent upon the Corporation's ability to generate future profitable operations including realization of the carrying value capital assets. Receiving the continued financial support of its lender and other creditors and securing ongoing financing to enable the Corporation to meet its obligations as they become due. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to the carrying value of assets and liabilities, reported sales and expenses and the balance sheet classifications used.

2. Significant accounting policies:

(a) Consolidation:
These consolidated financial statements include the accounts of the Corporation, and its wholly-owned subsidiary, ORCan Oilfield Services, Ltd.

(b) Capital assets:
Capital assets are recorded at cost upon acquisition. Depreciation on capital assets is provided using the declining balance basis at the following annual rates:

Processing equipment	20%
Office equipment	30%
Office furniture	20%

(c) Revenue recognition:
Revenue includes services rendered and estimates of services provided on long-term contracts using the percentage of completion method where contract objectives have been met.

(d) Income taxes:
The Corporation follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

(e) Research and development costs:
Research and development costs incurred relate directly to the development of technology for commercial application. Costs relating to research are expensed in the year in which they are incurred. Development costs related to a specific product or process that is proven to be technically and economically feasible are capitalized. Deferred development costs are amortized against future revenues over the period of expected benefit and are evaluated by management on a periodic basis as to their ultimate cost recovery.

(f) Foreign currency translation:
Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date while non-monetary assets and liabilities are translated at historical rates of exchange. All translation gains and losses are reflected in income when incurred.

(g) Stock based compensation plan:
Consideration paid by employees or directors on the exercise of stock options under the Corporation's stock option plan is recorded as share capital.

(h) Per share amounts:
Effective January 1, 2001 the Corporation retroactively adopted the new standard for the computation, presentation and disclosure of earnings per share (see note 8). Under the new standard, basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments.

(i) Use of estimates:
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimate relates to assessing the cost recovery of both the capital assets and the intangible assets, which are primarily based upon estimated future net cash flows to be generated from the assets. Actual results could differ from those estimates.

3. Related party transactions and balances:

(a) Share purchase loans:

	2001	2000
Share purchase loans:		
(i) Loans due from employees of the Corporation, non-interest bearing, repayable on demand and secured by 660,000 common shares of the Corporation	$ 87,000	$ 175,134

(b) Sale of subsidiary:
During the year ended December 31, 2001, the Corporation sold its wholly-owned subsidiary Industrial By-Product Recycling Canada Inc., for proceeds totalling $1 to a company in which the president of the Corporation is the president and shareholder. Details of the disposition were as follows:

Proceeds received on disposition	$	1
Net liabilities (assets) sold on disposition:		
Accounts receivable		(418,777)
Accounts payable		967,049
		548,727
	$	548,273

As the transaction was conducted between entities under common control, no gain was recognized on the disposition and $548,273 was recorded as an increase to contributed surplus. In the event that Industrial By-Product Recycling Canada Inc. is unable to pay its liabilities as they become due, vendors may make a claim against the Corporation for any outstanding balance. Any payments made by the Corporation on settlement of the liabilities of Industrial By-Product Recycling Canada Inc. will be recorded as an expense in the period incurred.

(c) Subcontracting and consulting services:
During the year ended December 31, 2001, cost of sales included $595,394 (2000 - $605,805) which was charged to the Corporation for subcontracting and consulting services rendered by shareholders and companies controlled by shareholders of the Corporation. Of this amount, $126,957 (2000 - $28,540) was included in accounts payable as at DecemberÊ31, 2001.

(d) Legal fees:
During the year ended December 31, 2001, general and administrative expenses included legal fees, for services rendered in the normal course of business and at normal commercial rates, totaling $25,310 (2000 - $27,478) to a firm in which a director of the Corporation is a partner. Of this amount, $nil (2000 - $1,764) was included in accounts payable as at December 31, 2001.

4. Capital assets:

2001		Cost		Accumulated depreciation and amortization		Net book value
Processing equipment	$	688,664	$	124,697	$	563,967
Furniture and office equipment		209,338		175,983		33,355
	$	898,002	$	300,680	$	597,322
2000						
Processing equipment	$	555,000	$	-	$	555,000
Furniture and office equipment		209,337		157,630		51,707
	$	764,337	$	157,630	$	606,707

5. Intangible assets:

	2001	2000
Development costs	$ 804,090	$ 583,021
Accumulated amortization	(36,875)	(36,875)
Accumulated write-down	(767,215)	(164,980)
	$ -	$ 381,166

6. Bank demand facility:

The Corporation has a demand operating facility to a maximum of $250,000. The facility bears interest at the bank's prime rate plus 1% per annum, is repayable on demand and is secured under a general security agreement representing a first floating charge on all assets of the Corporation.

7. Minority interest:

At December 31, 2000, the Corporation's investment in ORCan Oilfield Services, Ltd. was approximately 68% as ORCan had 555,000 voting preferred shares outstanding which were not owned by the Corporation. During the year ended December 31, 2001, the Corporation acquired the 555,000 preferred shares through the issuance of 900,000 common shares of the Corporation at an assigned value of approximately $0.18 per share (see note 8).

8. Share capital:

(a) Authorized:
- (i) Unlimited number of common shares; and
- (ii) Unlimited number of preferred shares.

(b) Common shares issued:

	Number of Shares	Amount
Balance, December 31, 1999	10,892,698	2,400,813
Issued in relation to private placement	500,000	140,000
Issued in relation to share purchase loans	700,000	143,166
Issued for cash	250,000	112,500
Balance, December 31, 2000	12,342,698	$ 2,796,479
Issued as consideration for the acquisition of the ORCan Oilfield Services, Ltd. preferred shares (see note 7)	900,000	159,806
Cancelled in relation to share purchase loans	(140,000)	(42,000)
Issued for cash	100,000	12,000
Balance, December 31, 2001	13,202,698	2,926,285

During the year ended December 31, 2000, 500,000 units of the Corporation were issued at a purchase price of $0.17 per unit to an officer and director of the Corporation pursuant to a unit purchase plan. Each unit consisted of one common share and one share purchase warrant. To facilitate the purchase of these units, the Corporation loaned the officer and director $85,000, at no interest, to be repaid annually in five equal principal payments of $17,000 per year. The units are held in escrow as security for repayment of the loan, and a proportionate share of these units are to be released each year when a principal payment is made. As of December 31, 2001, 300,000 (2000 - 400,000) common shares are held in escrow and $51,000 (2000 - $68,000) is outstanding under the share purchase loan.

During the year ended December 31, 2000, 200,000 common shares of the Corporation were also issued to various officers and employees of the Corporation pursuant to a common share purchase plan. To facilitate the purchase of these common shares, the Corporation loaned to these officers and employees $58,500, at no interest, to be repaid annually in five equal principal payments per year. The common shares are held in escrow as security for repayment of these loans, and a proportionate share of these common shares are to be released each year when a principal payment is made. As at December 31, 2001, 360,000 (2000 - 760,000) common shares are held in escrow and $36,000 (2000 - $107,134) is outstanding under the share purchase loan.

(c) Stock options:

The Corporation has reserved up to 10% of the issued and outstanding common shares for issuance under a stock option plan for officers, directors and employees. Details of the outstanding options are as follows:

	2001		2000	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	1,050,000	$ 0.17	800,000	$ 0.12
Granted	50,000	0.45	250,000	0.35
Canceled	(400,000)	0.26	-	-
Outstanding at end of year	700,000	$ 0.14	1,050,000	$ 0.17
Exercisable at year end	700,000	$ 0.14	1,050,000	$ 0.17

Options outstanding and exercisable:

Exercise price	Number outstanding	Weighted-average remaining contractual life
$ 0.12	650,000	1.9 years
$ 0.45	50,000	3.6 years

(d) Warrants:

During the year ended December 31, 2000 the Corporation issued 750,000 warrants which outstanding at December 31, 2001 and 2000. Each warrant enables the holder to acquire one common share of the Corporation at exercise prices ranging from $0.35 to $0.37 per common share. Details of the warrants outstanding as at December 31, 2001 and 2000 are as follows:

Number of warrants	Exercise price	Expiry date
250,000	$ 0.37	February 7, 2002
500,000	$ 0.35	May 21, 2002

Of the warrants outstanding as at December 31, 2001, 250,000 warrants expired on February 7, 2002.

(e) Per share amounts:
The following table details information regarding per share amounts:

	2001	2000
Weighted average number of common shares	12,889,164	12,005,575
Dilutive effect of stock options	288,889	622,209
Dilutive effect of warrants	-	114,608
Fully-diluted net income (loss) per share under the imputed earnings method	$ (0.09)	$ 0.04

9. Income taxes:

The provision for income taxes differs from the result that would have been obtained by applying the combined Federal and Provincial income tax rate to the Corporation's loss before income taxes. This difference results from the following items:

	2001	2000
Effective tax rate	42.1%	44.6%
Expected tax expense (recovery)	$ (495,000)	$ 252,000
Increase in valuation allowance	518,000	-
Effect of change in enacted income tax rates	37,000	-
Benefit of previously unrecognized losses	-	(138,000)
Minority interest	(60,000)	(114,000)
	$ -	$ -

The components comprising the future income tax balance at December 31, 2001 and 2000 are as follows:

	2001	2000
Future income tax assets (liabilities):		
Loss carry forwards	$ 888,000	$ 787,000
Capital assets	39,000	39,000
Intangible assets	10,000	(170,000)
	937,000	656,000
Valuation allowance	(937,000)	(656,000)
	$ -	$ -

10. Supplemental cash flow disclosure:

	2001	2000
Cash interest paid	$ 13,862	$ 28,872
The components of changes in non-cash working capital are as follows:		
Accounts receivable	$ 1,067,079	$ (1,142,344)
Prepaid expenses	51,532	(55,935)
Accounts payable	(197,399)	744,563
Change in non-cash working capital	$ 921,212	$ (453,716)

11. Segment information:

(a) Segment information and economic dependence:
The Corporation's operational activities were conducted in Canada and the United States. Management of the Corporation considers the operations of the Corporation as one operating segment. The following information relates to the Corporation's geographic areas of operation:

	2001	2000
Total assets:		
Canada	$ 452,252	$ 647.769
Mexico	-	936,166
United States	579,760	1,322,636
	$ 1,032,012	$ 2,906,571
Revenues:		
Canada	$ 1,079,719	$ 1,438,942
United States	1,278,484	3,918,000
	$ 2,358,203	$ 5,356,942

Any changes in government policies in foreign jurisdictions could have a significant impact on the Corporation's proposed business ventures. Risks of foreign operations include, but are not necessarily limited to changes in laws affecting foreign ownership, government participation, taxation, royalties, duties, rates of exchange, inflation, exchange control, repatriation of earnings and civil unrest. There are no assurances that the economic and political conditions in the countries in which the Corporation operates and intends to operate will continue in such countries as they are at the present time. The effect of these factors cannot be accurately predicted.

(b) Economic dependence:
At December 31, 2001 accounts receivable included $203,782 (USD) due from one customer. Export Development Corporation has provided insurance to pay 90% of certain losses with respect to balances owing from the customer, to a maximum of $325,000 (USD).

12. Financial instruments:

(a) Foreign exchange:
The Corporation conducts a significant portion of its operations in U.S. dollars and is therefore exposed to fluctuations in the Canadian/U.S. dollar exchange rate. During the year ended December 31, 2001, the Corporation incurred a foreign exchange gain of $858 (2000 loss of $34,317), which is included within general and administrative expenses.

(b) Fair values:
The carrying value of the Corporation's monetary assets and liabilities approximated their fair values as at December 31, 2001 and 2000, except for amounts due to related parties, which have an indeterminable fair value.

13. Subsequent event:

Effective January 1, 2002 the Corporation entered into an agreement with a company controlled by director of the Corporation. The agreement is with respect to the performance of the Corporation's investor and financial relations program for the year ending December 31, 2002. The agreement will require the Corporation to pay approximately $24,000 for the performance of the investor relations services. In addition, the Corporation will grant 100,000 stock options, subject to regulatory approval, with each option allowing the holder to acquire one common share of the Corporation at a price of $0.10 per share, until expiry.

BOARD OF DIRECTORS
Nathan S. Feldman
Michael J. Perkins
C. Gregory Andrews
Grant R. Howard

CORPORATE OFFICERS
Nathan S. Feldman, B.Comm., C.A., *President and CEO*
Michael J. Perkins, B.A., LL.B., *Corporate Secretary*

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ATC PETROLEUM SERVICES INTERNATIONAL INC.

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